

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	HLL.BO
Bloomberg code	HUVR IN
Market cap. (US\$ mn)	13,006
6M avg. daily turnover (US\$ mn)	24.0
Issued shares (mn)	2,181
Target price (Rs)	305

Performance (%)	1M	3M	12M
Absolute	7	0	35
Relative	15	(4)	(23)

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	10.7	12.2
+/- (%)	16.2	13.9
PER (x)	26.3	23.1
PBV (x)	25.5	21.7
Dividend/Yield (%)	2.9	3.2
EV/Sales (x)	3.3	2.9
EV/EBITDA (x)	20.8	18.2

Major shareholders (%)

Promoters	52
FII's	15
MF's	4
BFSI's	11
Public & Others	18

Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09*	FY10E	YoY (%)^	FY11E	YoY (%)
Net Sales	40,279	42,281	5.0	81,807	87,038	6.4	202,393	181,638	12.2	203,834	12.2
Other operating income	830	411	(50.5)	1,669	681	(59.2)	2,777	2,555	-	2,887	13.0
EBITDA	5,594	6,520	16.6	11,947	13,670	14.4	29,557	28,612	21.0	32,704	14.3
EBITDA margins (%)	13.6	15.3	-	14.3	15.6	-	14.4	15.5	-	15.8	-
Other Income	474	473	(0.2)	1,282	808	(36.9)	2,901	2,570	10.7	2,905	13.0
Interest	(65.0)	(14.8)	(77.2)	(152)	(67)	(56.3)	(253.2)	(202.6)	0.0	(198.5)	(2.0)
Depreciation	(392.7)	(462.4)	17.7	(772)	(887)	15.0	(1,953.0)	(1,743.9)	11.6	(1,887.6)	8.2
PBT & exceptional items	5,610	6,515	16.1	12,305	13,524	9.9	30,251	29,235	20.8	33,523	14.7
Exceptional items	1,087.3	(1,351.8)	(224.3)	1,268	(1,286.5)	(201.5)	(42.6)	0.0	(100.0)	0.0	-
PBT	6,697	5,163	(22.9)	13,573	12,238	(9.8)	30,209	29,235	21.0	33,523	14.7
Tax (incl deferred)	(1,231.0)	(878.1)	(28.7)	(2525)	(2521)	(0.2)	(5,244.3)	(5,980.7)	42.6	(7,032.4)	17.6
PAT	5,466	4,285	(21.6)	11,048	9,717	(12.0)	24,964	23,254	16.4	26,491	13.9
Adjusted PAT	4,421	5,058	14.4	9,656	10,643	10.2	25,216	23,254	15.3	26,491	13.9
EPS (Rs)^	2.0	2.3	14.3	4.4	4.9	10.1	9.3	10.7	15.3	12.2	13.9

*FY09 numbers are for 15 month period. ^ Growth and EPS numbers are annualised

Hindustan Unilever

Maintain Outperformer

Price: Rs 280

BSE Index: 15,896

03 November 2009

2QFY10 Result – Volume growth remains low at 1%

Hindustan Unilever (HUL) results with 5% growth in net sales at Rs 42.3 bn were below expectations. Volume growth of domestic FMCG business continued to remain weak at just 1% impacting growth during the quarter. Low input costs helped improve EBITDA margins by 170 bps despite higher ad spends which increased by 38% (13.5% of sales against 10.3% in 2QFY09). Adjusted PAT (excluding exceptional items and forex MTM) growth of 14% at Rs 5.05 bn was in line with our estimates (Rs 5 bn). Excluding MTM losses EBITDA increased by 23%, with margins expanding by 240 bps.

HUL's weak performance continues with its mainstay categories continuing to lose market shares in the mass segments. HUL, with the key priority of regaining market shares across categories, has stepped up its investment in mass brands and has taken steps to make them more competitive. However, the improvement in growth and market shares is rather coming very slowly and at a high cost. As HUL continues with its portfolio relaunch, brand activations and price and formulation changes, particularly in the mass segment, we remain hopeful of a volume growth recovery in the soaps and detergents segment in the coming quarters. With the weakest performance in the domestic FMCG space, current valuations look rich and offer limited upsides from current levels. However, HUL with a diversified portfolio and strong rural presence along with the likely recovery in volume growth in 2HFY10 remains a preferred defensive play. We maintain our Outperformer rating on the stock.

Highlights

- Sales growth of 5% was affected by a weak volume growth of just 1% and a 23% decline in exports. Domestic FMCG reported a 7% growth backed by 7% growth in HPC and a 13% growth in foods. While the premium portfolio is registering strong growth, the mass segment continues to lose market share affecting overall growth.
- Soaps and detergents recorded a disappointing 1% growth as volumes declined due to loss in market shares of its mass brands. Higher investment behind its brands led to a subdued 2% growth in PBIT despite the decline in commodity costs. HUL will continue with higher investments in brand building and with the relaunch of Breeze and price corrections in Wheel it is hopeful of regaining market share in the mass segments of soaps and detergents.
- Personal products led overall growth with 13% growth in sales, which was largely volume led and a strong 23% growth in PBIT (PBIT margins improved by 200 bps). With relaunches across skin and hair portfolio and price corrections in the oral care segment, growth was in double digits across categories.
- Foods recorded 13% growth led by a 18% growth in beverages, which was largely price led. Processed foods and ice creams recorded subdued growth during the quarter. The steep price hikes taken by HUL in its tea brands, along with lower coffee prices has helped the company improve its beverages margins by 290 bps to 17%.
- Other operational income decline is due to MTM adjustments, which include charge of Rs. 91 mn (2QFY09 credit of Rs.216 mn)
- Exceptional items during the quarter include profit on sale of properties Rs.308 mn (2QFY09: Rs. 1.3 bn) and restructuring costs of Rs. 1.6 bn (2QFY09: Rs. 224 mn).Restructuring costs for the quarter includes provision on account of settlement signed on 7th October 2009, with the Hindustan Lever Employee Union (HLEU), the Union representing erstwhile workers at Sewree factory, a closed unit. This settlement provides for all pending issues and cases to be amicably closed.

Market Share trend

(%)	2QFY09	1QFY10	2QFY10
Laundry	38.8	36.2	35.0
Personal Wash	49.7	46.3	44.5
Face Care	52.3	48.3	47.5
Hand & Body Care	56.4	53.7	52.7
Shampoo	45.9	45.4	45.6
Toothpaste	29.2	28.0	27.1
Tea	24.3	21.8	22.3
Instant Coffee	47.5	44.0	44.6

Segmental Performance

	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)
Revenues						
Soaps & Detergents	19,863	20,037	0.9	40,067	42,152	5.2
Personal Products	10,496	11,902	13.4	21,176	24,157	14.1
Beverages	4,422	5,216	18.0	8,636	10,212	18.2
Processed Foods	1,739	1,739	0.0	3,239	3,460	6.8
Ice Creams	466	504	8.0	1,186	1,390	17.1
Exports	2,961	2,270	(23.3)	6,895	4,845	(29.7)
Others (includes Chemicals, Water)	908	1,071	17.9	1,755	1,865	6.3
Total	40,855	42,738	4.6	82,954	88,080	6.2
Segment PBIT						
Soaps & Detergents	2,685	2,726	1.6	5,656	6,541	15.6
Personal Products	2,555	3,134	22.6	5,528	5,832	5.5
Beverages	626	887	41.9	1,240	1,591	28.2
Processed Foods	26	(9)	(135.6)	64	(22)	(134.6)
Ice Creams	21	25	18.9	158	180	13.7
Exports	317	172	(45.8)	605	377	(37.7)
Others (includes Chemicals, Water)	(289)	(98)	(65.9)	(543)	(378)	(30.4)
Total	5,940	6,836	15.1	12,709	14,121	11.1
PBIT margins						
Soaps & Detergents	13.5	13.6	–	14.1	15.5	–
Personal Products	24.3	26.3	–	26.1	24.1	–
Beverages	14.1	17.0	–	14.4	15.6	–
Processed Foods	1.5	(0.5)	–	2.0	(0.6)	–
Ice Creams	4.5	5.0	–	13.3	13.0	–
Exports	10.7	7.6	–	8.8	7.8	–
Others (includes Chemicals, Water)	(31.8)	(9.2)	–	(30.9)	(20.3)	–
Total	14.5	16.0	–	15.3	16.0	–

Income Statement

Yr end 31 Mar (Rs mn)	CY07	FY09	FY10E	FY11E
Net sales	137,178	202,393	181,638	203,834
Growth (%)	13.3	18.0	12.2	12.2
Operating expenses	(117,968)	(175,614)	(155,582)	(174,017)
Operating profit	19,210	26,780	26,057	29,817
Other operating income	1,805	2,777	2,555	2,887
EBITDA	21,014	29,557	28,612	32,704
Growth (%)	16.6	12.5	21.0	14.3
Depreciation	(1,384)	(1,953)	(1,744)	(1,888)
Other income	2,511	2,901	2,570	2,905
EBIT	22,141	30,504	29,438	33,722
Interest paid	(255)	(253)	(203)	(199)
Pre-tax profit	21,886	30,251	29,235	33,523
(before non-recurring)				
Non-recurring items	1,824	(43)	0	0
Pre-tax profit	23,710	30,209	29,235	33,523
(after non-recurring)				
Tax (current + deferred)	(4,049)	(5,244)	(5,981)	(7,032)
Net profit (before Minority Interest, Pref. Dividend etc..)	19,661	24,964	23,254	26,491
Prior period adjustments	(17)	0	0	0
Reported PAT	19,644	24,964	23,254	26,491
Adjusted net profit	17,821	25,007	23,254	26,491
Growth (%)	15.7	12.3	16.2	13.9

Balance Sheet

Yr end 31 Mar (Rs mn)	CY07	FY09	FY10E	FY11E
Cash & Marketable securities	15,230	20,011	22,864	31,876
Other current assets	30,765	38,236	40,748	43,056
Investments	1,187	1,088	2,692	2,692
Net fixed assets	17,081	20,788	20,324	20,392
Other non-current assets	4,037	4,391	4,037	4,037
Total assets	68,301	84,515	90,666	102,053
Current liabilities	51,110	57,838	63,796	71,059
Total debt	885	4,219	969	969
Other non-current liabilities	1,913	1,843	1,913	1,913
Total liabilities	53,908	63,900	66,678	73,941
Share capital	2,177	2,180	2,180	2,180
Reserves & surplus	12,215	18,435	21,808	25,932
Shareholders' funds	14,392	20,615	23,988	28,112
Total equity & liabilities	68,300	84,515	90,666	102,053
Capital employed	17,191	26,677	26,870	30,994

Cash Flow Statement

Yr end 31 Mar (Rs mn)	CY07	FY09	FY10E	FY11E
Pre-tax profit	23,710	30,209	29,235	33,523
Depreciation	1,384	1,953	1,744	1,888
Change in working capital	2,787	(2,390)	2,950	3,733
Total tax paid	(3,927)	(5,669)	(5,556)	(7,032)
Other operating activities	(17)	0	0	0
Cash flow from oper. (a)	23,936	24,103	28,373	32,111
Capital expenditure	(2,818)	(4,991)	(1,279)	(1,955)
Change in investments	9,731	11,082	(18,811)	(3,200)
Others	(537)	(669)	0	0
Cash flow from inv. (b)	6,400	5,409	(20,090)	(5,155)
Free cash flow (a+b)	30,337	29,511	8,283	26,956
Equity raised/(repaid)	(3,015)	394	0	(0)
Debt raised/(repaid)	159	3,334	(3,250)	0
Dividend (incl. tax)	(23,462)	(17,475)	(19,387)	(21,144)
Others	(6,181)	0	(0)	0
Cash flow from fin. (c)	(32,498)	(13,746)	(22,637)	(21,144)
Net change in cash (a+b+c)	(2,161)	15,765	(14,354)	5,812

Key Ratios

Yr end 31 Mar (%)	CY07	FY09	FY10E	FY11E
Adjusted EPS (Rs)	8.1	9.2	10.7	12.2
Growth	15.7	13.1	16.2	13.9
Book NAV/share (Rs)	6.6	9.5	11.0	12.9
Dividend/share (Rs)	9.0	6.0	8.0	9.0
Dividend payout ratio	130.8	76.5	85.5	84.4
Tax	17.1	17.4	20.5	21.0
EBITDA margin	15.1	14.4	15.5	15.8
EBIT margin	15.9	14.9	16.0	16.3
RoCE	94.7	111.3	109.9	116.6
Net debt/Equity	(99.7)	(76.6)	(91.3)	(109.9)

Valuations

Yr end 31 Mar (x)	CY07	FY09	FY10E	FY11E
PER	34.5	30.5	26.3	23.1
PCE	32.0	28.3	24.4	21.5
Price/Book	42.8	29.6	25.5	21.7
Yield (%)	3.2	2.1	2.9	3.2
EV/Net sales	4.3	3.7	3.3	2.9
EV/EBITDA	28.3	25.2	20.8	18.2

Du Pont Analysis – ROE

Yr end 31 Mar (x)	CY07	FY09	FY10E	FY11E
Net margin (%)	13.0	12.4	12.8	13.0
Asset turnover	1.9	2.1	2.1	2.1
Leverage factor	3.4	4.4	3.9	3.7
Return on equity	85.6	114.3	104.3	101.7

Note: FY09 numbers are for 15 month period. Growth and EPS numbers are annualised

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